



Huntington Ingalls Industries Inc. (HII)

Updated August 18th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$271	5 Year CAGR Estimate:	3.8%	Market Cap:	\$10.61B
Fair Value Price:	\$232	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/30/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	09/13/24
Dividend Yield:	1.9%	5 Year Price Target	\$296	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Huntington Ingalls Industries was spun out of Northrop Grumman in a tax-free transaction on March 31, 2011. Shareholders received one share in the new company for every six shares of Northrop Grumman owned. Today, the company primarily builds nuclear and non-nuclear ships for the U.S. Navy. The company reports three business segments: Newport News Shipbuilding, Ingalls Shipbuilding, and Mission Technologies. Newport News builds nuclear powered aircraft carriers and submarines. Ingalls builds surface combatant ships, amphibious assault ships, and Coast Guard cutters. Mission Technologies provides fleet maintenance and modernization, IT support, nuclear management and operations, and unmanned systems. The company had approximately \$11.5B in revenue in 2023.

Huntington Ingalls reported solid Q2 2024 results on August 1st, 2024. Companywide revenue rose 6.8% to a record \$2,977M compared to \$2,787M and diluted earnings per share gained 33.9% to \$4.38 from \$3.27 on a year-over-year basis on higher sales, and growth in all three segments. Companywide operating margins increased 75 bps to 6.3% from 5.6%. Revenue from Ingalls Shipbuilding increased 7.2% to \$712M from \$664M and operating margins fell 192 bps to 7.9% from 9.8% in the prior year driven by higher volumes in amphibious assault ships and surface combatants offset by the NSC. Newport News revenue climbed 1.7% to \$1,535M from \$1,509M in comparable periods due to higher *Columbia*-class but reduced aircraft carrier, *Virginia*-class, and carrier refueling and complex service volumes. Operating margins rose 94 bps to 7.2% from 6.3%. Revenue for Mission Technologies increased 18.6% to \$765M from \$645M on higher volumes in C5ISR, cyber, electronic warfare, and space. Operating margins increased 331 bps to 4.7% from 1.4%.

Huntington Ingalls' total backlog now stands at \$48.5B after about \$3.1B in contract wins.

Huntington Ingalls set 2024 guidance for ship building revenue of \$8.8B - \$9.1B and margins of 7.6% to 7.8%. The company guided for Mission Technologies revenue of ~\$2.7B - \$2.8B and margins of 3.0% to 3.5%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.85	\$8.36	\$12.14	\$10.46	\$19.11	\$14.01	\$17.14	\$13.50	\$14.44	\$17.07	\$16.58	\$21.16
DPS	\$1.00	\$1.70	\$2.10	\$2.52	\$3.02	\$3.61	\$4.23	\$4.23	\$4.72	\$5.02	\$5.20	\$6.33
Shares	48.3	46.8	46.2	45.1	41.9	40.8	40.5	39.1	39.1	38.8	38.0	35.1

Huntington Ingalls' historical adjusted earnings per share has been volatile due to pension adjustments, goodwill, and divestments. But the Pentagon is spending heavily on aircraft carriers, nuclear submarines, and amphibious assault ships. The U.S. Navy has a goal of 355 ships by 2034. Huntington Ingalls should experience top and bottom line growth due to the sale of ships and submarines. However, labor shortages and supply chain disruptions have caused ship building schedules to fall behind by one to two years in some cases. The company acquired Alion Science & Technology and bulked up its Mission Technologies segment, but this segment is a low margin business. We are forecasting on average 5% annual growth in earnings per share out to 2029. The share count should trend lower as well.

Huntington Ingalls has paid a growing dividend at a double-digit rate albeit off a low base since 2012. The dividend growth rate is slowing, and we now anticipate a 4% rate on average out to 2029. The forward payout ratio is about 30%, which leaves room for future increases and provides confidence about the safety.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.6	14.7	12.7	20.1	12.2	15.7	10.8	14.2	15.0	15.2	16.3	14.0
Avg. Yld.	0.9%	1.4%	1.2%	1.1%	1.6%	1.6%	2.1%	2.5%	2.1%	1.9%	1.9%	2.1%

Huntington Ingalls stock price is up significantly since our last report on better results. We again updated our 2024 estimated earnings per share to match consensus. But the equity trades above our fair value multiple of 14X, which is near the trailing average for the past 10 years. Our current fair value estimate is \$232. Our 5-year price target is \$296.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	15%	20%	17%	24%	16%	26%	25%	35%	33%	29%	31%	30%

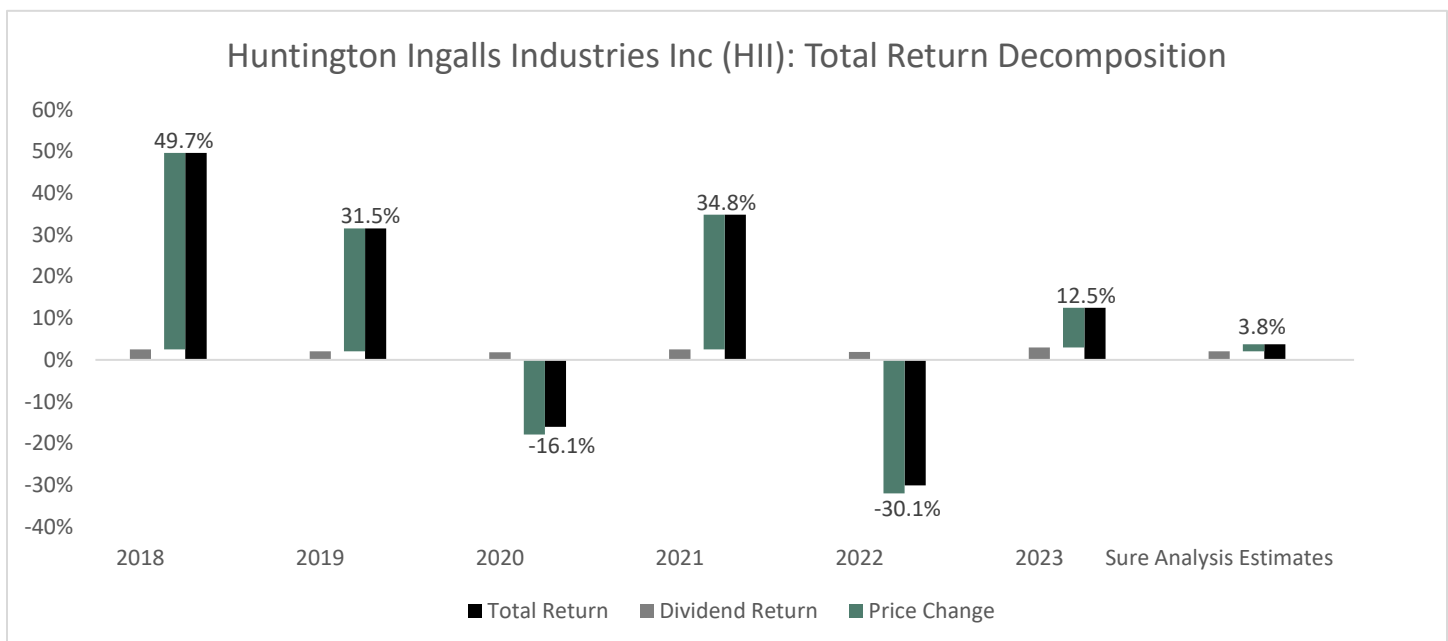
As a U.S. prime defense contractor, Huntington Ingalls has an entrenched position in its end markets. The company's main competitive advantage is the expertise it brings in designing and fabricating bespoke ships for the U.S. Navy. This expertise is not easy to recreate. Indeed, in the U.S., the company is the only provider of nuclear aircraft carriers, one of two providers of nuclear submarines and the only provider of amphibious assault ships. These platforms have decades long life cycles and Huntington Ingalls has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company does face risks in program cuts because of changes to future naval requirements, and federal budget cuts due to new administrations.

Current debt is \$942M and long-term debt is \$1,715M not including pension plan liabilities. Cash and equivalents on hand is \$11M. Debt rose because the company made acquisitions for the Mission Technologies segment.

Final Thoughts & Recommendation

At present we are forecasting a 3.8% annualized total return through 2029 from a dividend yield of 1.9%, 5% EPS growth, and (-3.0%) P/E multiple contraction. The company achieved record revenue in 2023, and the shipbuilding backlog is still high. But the at the current share price, we have maintained our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6957	7020	7068	7441	8176	8899	9361	9524	10676	11454
Gross Profit	1417	1503	1623	1628	1791	1531	1670	1368	1440	1646
Gross Margin	20.4%	21.4%	23.0%	21.9%	21.9%	17.2%	17.8%	14.4%	13.5%	14.4%
SG&A Exp.	726	669	768	759	871	788	904	898	924	1022
D&A Exp.	194	180	186	205	203	227	247	293	358	347
Operating Profit	691	834	870	869	934	743	767	472	517	744
Operating Margin	9.9%	11.9%	12.3%	11.7%	11.4%	8.3%	8.2%	5.0%	4.8%	6.5%
Net Profit	338	404	573	479	836	549	696	544	579	681
Net Margin	4.9%	5.8%	8.1%	6.4%	10.2%	6.2%	7.4%	5.7%	5.4%	5.9%
Free Cash Flow	590	673	537	432	451	366	740	429	482	678
Income Tax	169	228	211	293	135	134	114	78	140	172

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6239	6024	6352	6374	6383	7031	8157	10627	10857	11215
Cash & Equivalents	990	894	720	701	240	75	512	627	467	430
Accounts Receivable	244	236	318	442	252	318	397	433	636	461
Inventories	339	285	210	183	128	136	137	161	183	186
Goodwill & Int. Ass.	1573	1451	1782	1725	1755	1865	2129	3787	3637	3509
Total Liabilities	4874	4534	4699	4616	4867	5443	6256	7819	7368	7122
Accounts Payable	269	317	316	375	562	497	460	603	642	554
Long-Term Debt	1670	1273	1278	1279	1283	1286	1686	3298	2905	2445
Shareholder's Equity	1365	1490	1653	1758	1516	1588	1901	2808	3489	4093
LTD/E Ratio	1.22	0.85	0.77	0.73	0.85	0.81	0.89	1.17	0.83	0.60

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	23.4%	28.3%	9.2%	8.2%	13.1%	7.5%	9.3%	5.8%	5.4%	6.2%
Return on Equity	10.7%	13.9%	39.9%	35.4%	51.1%	28.1%	36.5%	23.1%	18.4%	18.0%
ROIC	49.3	48.3	21.5%	19.4%	28.6%	16.1%	20.1%	11.2%	9.3%	10.5%
Shares Out.	48.3	46.8	46.2	45.1	41.9	40.8	40.0	40.3	40.1	39.9
Revenue/Share	11.97	13.93	230.57	214.95	186.67	162.47	149.75	236.33	266.23	287.07
FCF/Share	23.4%	28.3%	18.23	8.84	10.30	9.43	11.38	10.65	12.02	16.99

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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